RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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July 17, 1996 **LETTER 1204**

July 5 DJIA 5588.14; PTI 4563; A-D Ratio +0.02
July 12 DJIA 5510.56; PTI 4560; A-D Ratio -0.76
Dow Yield: 2.26%; Dow Price/Earnings: 17.8
Dow 200-day MA: 5331; Dow 30-day MA: 5651
Dow Times Book Value: 4.12; PTI 89-day MA: 4525
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 393.07; Gold-PTI: 519

THE MARKET: There are a number of phenomena that I don't like about this stock market. I listed many of them in the last Letter, but here we go again.

(1) The Dow low for the year 1982 was **776.92.** Since then we have not seen a year in which the Dow low has broken below the preceding year's low. This year, 1996, represents the fifteenth year in which the Dow has refused to break the preceding year's low. I show the amazing record below.

INDUSTRIAL

Year	High	Date		Low	Date	
1996	5197.68	Jan.	8	5032.94	Jan.	10
1995	5216.47	Dec.	13	3832.08	Jan.	30
1994	3978.36	Jan.	31	3593.35	Apr.	4
1993	3794.33	Dec.	29	3241.95	Jan.	20
1992	3413.21	June	1	3136.58	Oct.	9
1991	3168.83	Dec.	31	2470.30	Jan.	9
1990	2999.75	July	16	2365.10	Oct.	11
1989	2791.41	Oct.	9	2144.64	Jan.	3
1988	2183.50	Oct.	21	1879.14	Jan.	20
1987	2722.42	Aug.	25	1738.74	Oct.	19
1986	1955.57	Dec.	2	1502.29	Jan.	22
1985	1553.10	Dec.	16	1184.96	Jan.	4
1984	1286.64	Jan.	6	1086.57	July	24
1983	1287.20	Nov.	29	1027.04	Jan.	3
1982	1070.55	Dec.	27	776.92	Aug.	12

This kind of incredible string has never happened before. In fact the longest previous such string was the six-year Dow string from 1942 to 1947. Being an old-timer in this business, it naturally attracts my attention (and puts me on my guard) when the stock market establishes a record that goes far beyond what ever happened before.

The following is worth pondering: just suppose that this year -- 1996 -- is the year when the Dow finally breaks below the low of the preceding year. Last year's low (1995 low) was **3832.08.** If the Dow was to break below last year's low (God help us) the Dow would lose one-third of its value. Hey, it's just a thought.

(2) I was wrong (in the last Letter) about the month of June on the S&P 500. I jumped the gun, saying that June was a "down month for the S&P" Actually, the S&P closed slightly up in June -- so from December 1994 to January 1996 we saw 17 out of 19 months in which the S&P closed higher. This may be the longest such string in history, and as previously noted, 17 of 19 up-months on the S&P should have discounted a hell of a lot of bullish factors (could it have been ALL of them?).

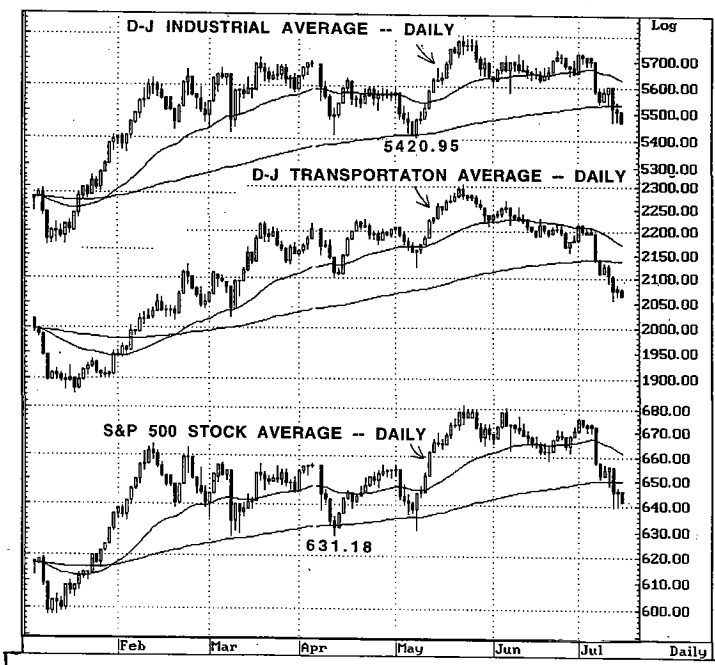
(3) With the unexpected surge in the employment figures, the Dow on July 5 dropped 114 points. The newspapers and most commentators took the stock and bond markets' swoons as simply a one-day response to the unexpectedly good employment news. But I took the drop to be just *one more peg in a market that has been losing technical strength for many months.*

(4) I don't like the fact that the public is now more heavily in the stock market than ever before in history. Furthermore, the interest (greed) in the stock market is now more widespread and more intense than I have seen it in 50 years of watching markets. Magazine covers tell us how to "retire with stocks." The airways are filled with "helpful" stock information. On TV, radio, Internet, it's stocks, stocks, stocks, the road to easy, wealthy, plushy retirement.

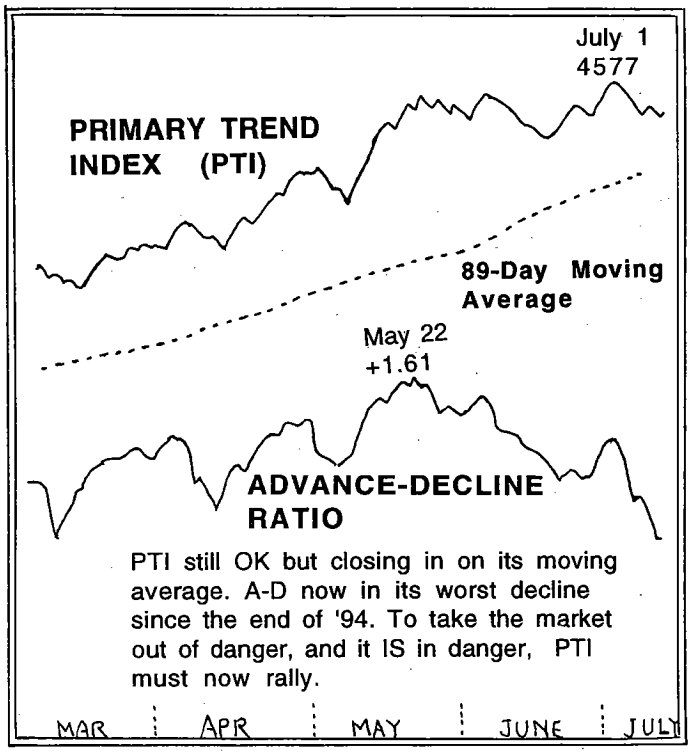
Remember this -- the bear is a devil; he's got no conscience at all. The bear wants to take the market down with as many stockholders as possible "sitting and hoping." And never in history have there been so many investors holding stocks or mutual funds.

(5) In a few Letters ago (Letter 1202) I showed a chart of Lowry's Buying Power/Selling Pressure. An extended market advance sooner or later always attracts selling, and I noted that Selling Pressure on the Lowry's graph turned up on a trend basis *last September.* By the same token, during an extended advance, sooner or later buying interest drops off. And that's exactly what happened this year. In *February* Buying Power turned down on a trend basis. When Selling Pressure turns up and then Buying Power tops out, usually within four to six months the stock market runs into trouble.

Based on the above, the stock market should run into trouble between now and August -- roughly two to four months from the

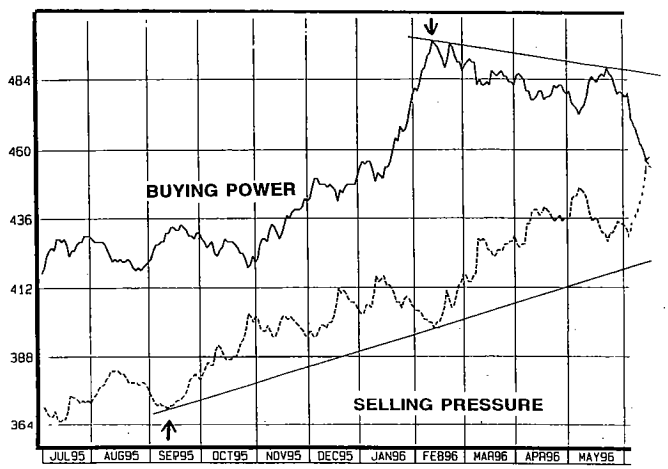


Here are three critical averages. The upper thin line is a 34-day moving average and the lower thin line is a longer 144-day moving average. All three averages are below their 34-day MAs, and the D-J Transports have sunk below both MAs. If or when the 34-day MAs decline below the 144-day MAs you'll know the market is in major trouble.



February Buying Power downturn. Mmm, the trouble could be happening NOW.

BUT -- when Selling Pressure actually crosses above Buying Power, that's when the whole market equation changes. At that point, the market will move into an established downtrend (either a secondary correction or a primary bear market). The chart below brings the Lowry's study up to date [Lowry's -- (407)842-3514].



(6) The character of the stock market has changed. Recently, we've seen a number of days in which breadth was down substantially and in which the "15 Most Active Stocks" (on the NYSE) showed a negative plurality. Also, we are finally seeing days in which there are more 52-week lows than 52-week highs. Note: watch for *five consecutive days* on the NYSE in which there are more lows than highs. Such a string often signals trouble.

Incidentally, in June we witnessed 11 *consecutive* days of negative breadth. This has not happened in the past 15 years. It's a sign of increasing selling pressure, and it's not a good omen.

(7) "June saw a record amount of corporate selling; both companies and insiders sold nearly $14 billion in newly printed shares, a record month topping the previous record month set before. In addition, the amount of stock that insiders are unloading also set a record . . ." [this paragraph courtesy of *Market Trim Tabs* (707)525-1001].

BUT THE PROOF: Dow Theory tells us that a trend, once established, continues in force *until proved otherwise.* That's the safe, the time-honored method of dealing with any trend.

But because I tend to be a conservative guy, let's look at the other side of the coin. Let's ask the bull market to re-confirm itself. Let's see if the big Averages can advance to new highs, thereby re-confirming the bull market.

The bull market high for the D-J Industrial Average was recorded on May 22 at **5778.00.** The Transportation Average hit its high on May 22 at **2296.20.** Finally, the S&P 500 Stock Index recorded its high on May 24 at **678.51.**

COMMENTS: The operative, absolutely crucial question is always -- *is the primary trend of the market still bullish?* As long as the trend remains bullish, all news, all statistics, all worries, will ultimately be chewed up, swallowed and digested by the bull.

The question then becomes, how long can we or should we put our trust in the bull forces? My answer (aside from Dow Theory considerations) -- as long as my **Primary Trend Index** continues to record new highs. The PTI is my "fail-safe" market barometer. I monitor its action daily. Each issue of Dow Theory Letters includes a chart of the PTI on page 2.

The PTI hit a new high of 4577 on July 1, but it immediately turned down. The PTI is now only 40 points from its 89-day moving average, as close as it's been in many months.

Unlike Dow Theory, the PTI does not require a lot of analysis or interpretation. I've often written that to interpret what the PTI is saying, all you have to know is "up from down." If the PTI is rising and recording new highs, then you know that the bull forces are in command. If the PTI is declining, watch it and be ready to move. If the PTI breaks below its 89-day moving average, move rapidly toward the exits. Finally, if the PTI remains below its moving average long enough to turn the trend of its moving average down, then head for the hills -- you're in bear market country.

INVESTMENT POSITION: In the last Letter I had the bull saying, "I've got the shakes." As this is written, the bull isn't just shaking, he's on his knees. As a result, I've placed a large question mark in the box. Technically, this is still a bull market, simply because we lack proof to the contrary. But I'll let you in on a secret, I don't like the action.

?

Here's a statement or a repetition of what I've been saying for some months -- the name analysts may have told you that "cash is trash," but I'm of the opinion that cash may look mighty good before this year is out. At any rate, cash is where Richard Russell is -- and that should come as no surprise to readers of these Letters.

MAKING MONEY: The most popular piece I've published in 38 years of writing these Letters was entitled, "Rich Man, Poor Man." I last ran this piece back in June of 1990. Since then I have had dozens of requests to run this piece again or for permission to reprint it for various business organizations. When I ran the piece in '90 I added a few items, and I want to do that again. So let's call the current article, simply "Investment Survival in Today's Tough World."

Here in 1996 I'm flooded with advertisements and mailings all telling me "how I can make a killing in the stock market." Every other magazine features a cover story which tells me what mutual funds I should buy. Newspapers, TV and radio feature "the best mutual funds to retire on." It's a veritable blizzard of information -- "how you and I can make it, and make it big, in the stock market."

Now I'm not ridiculing these ads and mailings and info-mercials -- the fact is that many of them are cleverly written and fascinating. But I wonder how much use they are to the average investor. And I ask myself, "How many of the writers and advisors who wrote these pieces have actually made any 'real money' for themselves?" My answer is, "Not many", and I know this for a fact, because I know a great many of the advisors.

Making money entails a lot more than predicting which way the stock or bond markets are heading or trying to figure which stock or fund will double over the next few years. For the great majority of investors, making money requires a plan, self-discipline and desire. I say, "for the great majority of people" because if you're a Steven Spielberg or a Bill Gates you don't have to know about the Dow or the markets or about yields or price/earnings ratios. You're a phenomenon in your own field, and you're going to make big money as a by-product of your talent and ability. But this kind of genius is rare.

For the average investor, you and me, we're not geniuses so we have to have a **financial plan.** In view of this, I offer below a few items that we must be aware of if we are serious about making money.

	INVESTOR A		INVESTOR B	
Age	Contri-bution	Year-End Value	Contri-bution	Year-End Value
8	-0-	-0-	-0-	-0-
9	-0-	-0-	-0-	-0-
10	-0-	-0-	-0-	-0-
11	-0-	-0-	-0-	-0-
12	-0-	-0-	-0-	-0-
13	-0-	-0-	-0-	-0-
14	-0-	-0-	-0-	-0-
15	-0-	-0-	-0-	-0-
16	-0-	-0-	-0-	-0-
17	-0-	-0-	-0-	-0-
18	-0-	-0-	-0-	-0-
19	-0-	-0-	2,000	2,200
20	-0-	-0-	2,000	4,620
21	-0-	-0-	2,000	7,282
22	-0-	-0-	2,000	10,210
23	-0-	-0-	2,000	13,431
24	-0-	-0-	2,000	16,974
25	-0-	-0-	2,000	20,872
26	2,000	2,200	-0-	22,959
27	2,000	4,620	-0-	25,255
28	2,000	7,282	-0-	27,780
29	2,000	10,210	-0-	30,558
30	2,000	13,431	-0-	33,614
31	2,000	16,974	-0-	36,976
32	2,000	20,872	-0-	40,673
33	2,000	25,159	-0-	44,741
34	2,000	29,875	-0-	49,215
35	2,000	35,062	-0-	54,136
36	2,000	40,769	-0-	59,550
37	2,000	47,045	-0-	65,505
38	2,000	53,950	-0-	72,055
39	2,000	61,545	-0-	79,261
40	2,000	69,899	-0-	87,187
41	2,000	79,089	-0-	95,905
42	2,000	89,198	-0-	105,496
43	2,000	100,318	-0-	116,045
44	2,000	112,550	-0-	127,650
45	2,000	126,005	-0-	140,415
46	2,000	140,805	-0-	154,456
47	2,000	157,086	-0-	169,902
48	2,000	174,995	-0-	186,892
49	2,000	194,694	-0-	205,581
50	2,000	216,364	-0-	226,140
51	2,000	240,200	-0-	248,754
52	2,000	266,420	-0-	273,629
53	2,000	295,262	-0-	300,992
54	2,000	326,988	-0-	331,091
55	2,000	361,887	-0-	364,200
56	2,000	400,276	-0-	400,620
57	2,000	442,503	-0-	440,682
58	2,000	488,953	-0-	484,750
59	2,000	540,049	-0-	533,225
60	2,000	596,254	-0-	586,548
61	2,000	658,079	-0-	645,203
62	2,000	726,087	-0-	709,723
63	2,000	800,896	-0-	780,695
64	2,000	883,185	-0-	858,765
65	2,000	973,704	-0-	944,641
Less Total Invested:		(80,000)		(14,000)
Equals Net Earnings:		893,704		930,641
Money Grew:		11-fold		66-fold

Rule 1: Compounding: One of the most important lessons for living in the modern world is that to survive you've got to have money. But to live (survive) *happily*, you must have love, health (mental and physical), freedom, intellectual stimulation -- and money. When I taught my kids about money, the first thing I taught them was the use of the "money bible." What's the money bible? Simple, it's a volume of the *compounding interest tables.*

Compounding is the royal road to riches. Compounding is the safe road, the sure road, and fortunately, anybody can do it. To compound successfully you need the following: **perseverance** in order to keep you firmly on the savings path. You need **intelligence** in order to understand what you are doing and why. And you need a **knowledge** of the mathematics tables in order to comprehend the amazing rewards that will come to you if you faithfully follow the compounding road. And, of course, you need **time**, time to allow the power of compounding to work for you. Remember, compounding *only works through time.*

But there are two catches in the compounding process. The first is obvious -- compounding may involve sacrifice (you can't spend it and still save it). Second, compounding is boring -- b-o-r-i-n-g. Or I should say it's boring until (after seven or eight years) the money starts to pour in. Then, believe me, compounding becomes very interesting. In fact, it becomes downright fascinating!

In order to emphasize the power of compounding, I am including this extraordinary study, courtesy of *Market Logic*, of Ft. Lauderdale, FL 33306. In this study we assume that investor (B) opens an IRA at age 19. For seven consecutive periods he puts $2,000 in his IRA at an average growth rate of 10% (7% interest plus growth). After seven years this fellow makes NO MORE contributions -- he's finished.

A second investor (A) makes no contributions until age 26 (this is the age when investor B was finished with his contributions). Then A continues faithfully to contribute $2,000 every year until he's 65 (at the same theoretical 10% rate).

Now study the incredible results. B, who made his contributions earlier and who made only seven contributions, ends up with MORE money than A, who made 40 contributions but at a LATER TIME. The difference in the two is that *B had seven more early years of compounding than A.* Those seven early years were worth more than all of A's 33 additional contributions.

This is a study that I suggest you show to your kids. It's a study I've lived by, and I can tell you, "It works." You can work your compounding with muni-bonds, with a good money market fund, with T-bills or say with five-year T-notes.

Rule 2: DON'T LOSE MONEY: This may sound naive, but believe me it isn't. If you want to be wealthy, you must not lose money, or I should say must not lose BIG money. Absurd rule, silly rule? Maybe, but MOST PEOPLE LOSE MONEY in disastrous investments, gambling, rotten business deals, greed, poor timing. Yes, after almost five decades of investing and talking to investors, I can tell you that most people definitely DO lose money, lose big time -- in the stock market, in options and futures, in real estate, in bad loans, in mindless gambling, and in their own business.

RULE 3: RICH MAN, POOR MAN: In the investment world the wealthy investor has one major advantage over the little guy, the stock market amateur and the neophyte trader. The advantage that the wealthy investor enjoys is that HE DOESN'T NEED THE MARKETS. I can't begin to tell you what a difference that makes, both in one's mental attitude and in the way one actually handles one's money.

The wealthy investor doesn't need the markets, because **he already has all the income he needs.** He has money coming in via bonds, T-bills, money market funds, stocks and real estate.

In other words, the wealthy investor *never feels pressured* to "make money" in the market.

The wealthy investor tends to be an expert on **values.** When bonds are cheap and bond yields are irresistibly high, he buys bonds. When stocks are on the bargain table and stock yields are attractive, he buys stocks. When real estate is a great value, he buys real estate. When great art or fine jewelry or gold is on the "give away" table, he buys art or diamonds or gold. In other words, the wealthy investor puts his money where the great values are.

And if no outstanding values are available, the wealthy investor waits. He can afford to wait. He has money coming in daily, weekly, monthly. The wealthy investor knows what he is looking for, and he doesn't mind waiting months or even years for his next investment (they call that **patience**).

But what about the little guy? This fellow always feels pressured to "make money." And in return he's always pressuring the market to "do something" for him. But sadly, the market isn't interested. When the little guy isn't buying stocks offering 1% or 2% yields, he's off to Las Vegas or Atlantic City trying to beat the house at roulette. Or he's spending 20 bucks a week on lottery tickets, or he's "investing" in some crackpot scheme that his neighbor told him about (in strictest confidence, of course).

And because the little guy is trying to force the market to do something for him, he's a guaranteed loser. The little guy doesn't understand values so he constantly overpays. He doesn't comprehend the power of compounding, and he doesn't understand money. He's never heard the adage,*"He who understands interest -- earns it. He who doesn't understand interest -- pays it."* The little guy is the typical American, and he's deeply in debt.

The little guy is in hock up to his ears. As a result, he's always sweating -- sweating to make payments on his house, his refrigerator, his car or his lawn mower. He's impatient, and he feels perpetually put upon. He tells himself that he has to make money -- fast. And he dreams of those "big, juicy mega-bucks." In the end, the little guy wastes his money in the market, or he loses his money gambling, or he dribbles it away on senseless schemes. In short, this "money-nerd" spends his life dashing up the financial down-escalator.

But here's the ironic part of it. If, from the beginning, the little guy had adopted a strict policy of never spending more than he made, if he had taken his extra savings and compounded it in intelligent, income-producing securities, then in due time he'd have money coming in daily, weekly, monthly, just like the rich man. The little guy would have become a financial winner, instead of a pathetic loser.

RULE 4: VALUES: The only time the average investor should stray outside the basic compounding system is when a given market offers outstanding value. I judge an investment to be a great value when it offers (a) safety; (b) an attractive return; and (c) a good chance of appreciating in price. At all other times, the compounding route is safer and probably a lot more profitable, at least in the long run.

NOTES & QUOTES: Mmmm: *"In 1983 there were about 700 mutual funds and over 5,000 drilling rigs. In 1995 there are 700 drilling rigs and over 5,000 mutual funds."* From a 1995 speech by Richard Rainwater, famed Texas investor. **Russell comment:** Here in 1996 it's become even more lopsided.

* *

From an article in the *Christian Science Monitor,* July 8, by Richard Lamm, a truly honest man and presidential candidate: "I have just participated in the greatest embezzlement in history. In my 60 years, I have never see such a perfect crime. Here's how we did it. The first rule of embezzlement is to find some naive patsy. We sensed 30 years ago that the younger generation was not paying enough attention to public policy, so we quietly found ways to maintain our lifestyle and charge it to the next generation. While those of you under 45 were preoccupied with other things, my generation dumped the largest load of debt on you that history has ever seen -- and found ways to maintain our lifestyles on your credit cards . . . We are well along in totally spending the Social Security Trust Fund and have left nothing, absolutely nothing but higher payroll taxes to today's and tomorrow's workers. They will have to either raise their taxes substantially or dramatically reduce their benefits under the system. They may, of course, try to do the same thing we did and try to perpetuate the Ponzi scheme, but I doubt it will work. Young people catch on at some time. The perfect crime works only once . . . The next generation will wake up to the magnitude of the fraud. They will recognize they are working long hours (or two jobs) and make less working than I make in retirement." **Russell Comment:** Lamm is the only politician who is telling the American people the truth. It's a pity that this man isn't running in Dole's place.

* *

Quote from John Mueller, bearish chief economist of Lehman Bell Mueller Cannon, Inc., a Virginia-based consulting firm: "The astonishing fact is that the consensus of forecasters have never -- ever -- forecast a recession. That's because recessions are aberrations, and forecasters focus on trends." **Russell Comment:** I don't see recessions as aberrations, recessions are a natural and normal correction of preceding economic excess.

* *

Quotes from a fascinating and extremely important article in the July 15 *Forbes:* "Most East Asian nations have no capital gains tax and no inheritance tax. These societies are not yet overly concerned with the distribution of wealth. Creating it is everything. Everybody in Asia has bought into the fact that the pie is growing and that you have to get on the train . . . Let's look at the numbers. From 1980 to this year the region's (East Asia's) share of world economic output has increased from 17% to 25%, and it continues to expand. Its chunk of the world's foreign exchange holdings has leaped from 10% to over 50% during the same period. With national savings rates ranging from 30% to 45%, the region is already generating nearly as much new savings each year as the US and Europe combined. And -- lest we forget -- it is savings, the creation of capital, that generates capital growth . . . Over the past decade annual economic growth in East Asia (excluding Japan) has averaged 8.5%, four times the rate in the West . . . The East Asian developing countries have many similarities, they maintain high savings and investment rates, practice fiscal and monetary discipline, educate their working forces, tax lightly. They eschew income redistribution and social welfare systems and are hotbeds of entrepreneurism. Their economies look alike because they actively and openly study, copy and compete with each other. If Singapore lowers tax rates today, then Malaysia will tomorrow . . . East Asia is generating huge amounts of capital, collectively saving and investing about 35% of GNP, roughly double the rate of Latin America, South Asia or, for that matter, the US . . . The Maylasian economy has been completely remade by foreign direct investment over the last decade or two. It's gone from palm oil and tin to exporting semiconductors and disk drives . . . The West Coast of the US will be especially buoyed by commerce with Asia . . . There are now more than one million Asians in LA alone . . . Over all, like a giant question mark, looms China. Because of its sheer size, its mushrooming economy and growing military might, China could upset the balance of power in Asia. In the years ahead, the US-China relationship will likely become the most geopolitically important one in the world, replacing the old US-USSR rivalry. That is why many Asians desperately want the US to maintain its comforting military and security presence in the Pacific."

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Silky: We've been hearing about the fabulous demand-markets that Asia is going to present to Western manufacturers. But I've been saying that Asia is also going to be a huge source of low-priced supply. This article from the July 9 *WSJ* tells of the flood of silk coming out of China, and I quote the article: "Unable to earn

Chinese Silk Is Turning Into a Sow's Ear

Losses Mount as Monstrous Output Floods the World

By Joseph Kahn
Staff Reporter of The Wall Street Journal

HANGZHOU, China—Silk, China's country's total output potential—at 130,000 metric tons—would more than satisfy total world demand.

time-worn reception room of Hangzhou Silk's 100-acre campus. Mr. Wang itches with irritation about his company's

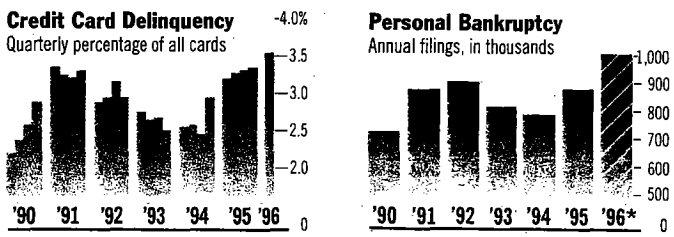
their keep selling raw silk at market prices, Chinese traders last year saw exports of raw and processed silk decline by nearly 20%. Overseas sales dived a disastrous 42% in the first quarter of this year." **Russell Comment:** No inflation here.

* *

Autos: Convertibles and roadsters are back big in the car business. BMW is out with its underpowered low-priced Z3 roadster. Mercedes will be delivering its two-seater SLK in the first quarter of '97. SLK will have a metal roof that automatically folds into the trunk, a supercharged four-cylinder engine (190 HP) and a top speed of 144 MPH. Price will be around $40,000. Mercedes will produce about 35,000 SLKs and the talk is that the production is already sold out. I ordered one. I am a Mercedes believer, new or used I love 'em.

* *

Optimism is fine, but you can overdo it. These graphs suggest that a lot of Americans are overdoing it -- big time. Writes Merrill Lynch, "In recent days a number of events have occurred that suggest that conditions may be unraveling. First, credit card delinquencies have reached levels that have always signaled cyclical peaks in borrowing and spending. A decade ago, credit-card and mortgage debt totaled 55% of disposable incomes; today, the figure is 85%."



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Blonde-Stats: (from *Playboy*) "Percentage of American women born blonde: 16. Percentage of women who have blonde hair today: 33. Percentage of TV newscasters who are blonde: 64. Percentage of Miss Americas who are blonde: 65. Percentage of Playboy Playmates who are blonde: 73.

* *

Russia has been having a hard time collecting taxes. So a new regime came into play: Russian tax collectors are now armed, and wear flak-jackets. The new tax collectors also have the right to split 50/50 with the government on all taxes they collect via their "investigations."

* *

One year from now China will take over Hong Kong from the British. More than 1 million of the territory's 6 million population have taken the precaution of obtaining citizenship in Australia, Canada, US or elsewhere. But they are worried about whether China will recognize dual citizenships. China says that as long as residents don't make a big deal of it, China will treat the passports simply as "travel documents." China also promises not to dip into Hong Kong's huge cash reserves of approximately $60 billion, almost equal to China's own reserves of $85 billion. Shock waves went through Hong Kong when a Chinese airline acquired 36% of Dragonair, Hong Kong's second largest air carrier. Hong Kong businessmen wonder whether that was "just the beginning."

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If you use the Internet you are probably as frustrated as we are by how slow the info comes out. Now a raft of new devices promise to connect you to the Internet (via cable) at speeds of 300 to 400 times faster than today's fastest modems. And at least one of the devices will make connecting to the Internet as easy as turning on your TV. Two industries are pushing the new revolution -- cable and telephone.

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Harley Davidson, once a cult motorcycle, is now becoming the darling of yuppies and Generation X riders. Is Harley "blowing it"? I'm beginning to think so. Harley now produces 116,000 cycles a year, but will build a new Kansas City factory and expects to push its production over 200,000 cycles within four years. Mmm. The cult status is going, so Harley, in my opinion, is going to depend increasingly on exports. One problem -- Harleys are expensive and are low-tech machines.

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The twentieth century has been (and continues to be) the bloodiest century in history. Consider the multi-millions killed in World War I and II. Consider the multi-millions killed by Pol Pot in Asia, the tens of millions killed by Stalin and Hitler, the mass slaughter of the Armenians by the Turks, the tens of thousands killed in Chad and in Africa. Now it turns out that China's Mao Zedong may have been the biggest killer of all -- he caused the death or starvation of more than 50 million Chinese during 1960 and '61 and during the "Cultural Revolution" which caused the death of millions including a large part China's leading intellects.

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Why do the politicians love Washington? Power and money. For instance, Dole's pension and Social Security checks (should he apply for them), according to calculations by the National Taxpayers Union, will total at least $107,000 annually. That's based on Dole's 35 years in Congress plus five years of military service. In addition, he'll continue to receive $118,300 per year in disability compensation from war wounds. And consider Dan Rostenkowsi, former Democratic chairman of the House Ways and Means Committee. Danny goes to prison this week, but he's still due to receive $136,663 in pension payments. A total of 34 members of Congress have gone to prison during this century and none have ever lost their pensions.

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Europe has long loved its "womb to tomb" government largesse, but the huge costs of these policies are finally forcing retrenchment. France is the leader in government handouts. But France is at last being forced to cut back, much to the anger and frustration of the French people. Consider the following: Today the French government employs more than 25% of the entire work force, twice the level of the US or even Germany. Public spending consumes more than half of the country's GDP, a larger portion of any other European country, including even the Scandinavian states and the former socialist societies of Eastern Europe. The French sales tax is an incredible 20%. The massive French civil service bill runs over $120 billion or a full 40% of the entire French national budget. In recent years the French government has handed out huge sums to save chronic losers -- $25 billion to the national railroads, $10 billion to Europe's biggest bank, another $10 billion for the national airline. Said President Chirac recently, "France must move from a culture of assistance to a culture of responsibility. In a country such as ours, where recourse to the state is second nature, we must have a revolution in thinking." In the meantime, France's unemployment rate has hit 12.4% of the work force, just short of the record high.

* *

Warren Buffett, whose Berkshire Hathaway stock has made him a billionaire (he owns 43% of the company), is a famed judge of values. In issuing the new "Baby Berkshire" shares, Buffett protected himself against criticism should the price of both the original Berkshire stock and the new "Babies" fall. In its 1995 annual report, Buffett writes, *"Berkshire is selling at a price at which Charlie (partner Charlie Munger) and I would not consider buying it. Though the per-share intrinsic value of our stock has grown at an excellent rate during the past five years, its market price has grown still faster. The stock, in other words, has outperformed the business."* At present, Berkshire stock sells for about twice their book value or the theoretical liquidation value of their assets.

* *

Kids, Kids, or Why Fathers Turn Gray: Two weeks ago son Ryan needed 10 stitches (Scripps hospital emergency room) when, while surfing, his board broke, slashing his foot. Next, a conversation last week: Russell to son Ryan: "Ryan, look at this article in the *New York Times*. It says that three kids have died this year jumping of the high cliffs at the La Jolla Cove. I hope you haven't done that." Ryan: "C'mon, dad, I've done that a hundred times. Last summer we jumped off the cliffs almost every day." Russell: "Listen, do me a favor. Don't do it anymore. Remember, you're going to college in a few months, and I'd like you to go in one piece. Plus, the water polo coach expects you to be healthy, so please be careful." Ryan: "OK, dad."

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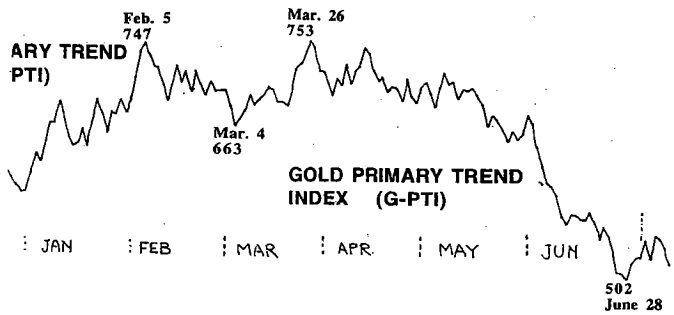
Chutzpah Award of the Decade: O. J. Simpson hosted a charity function to help abused women. The "Stop the Violence" function (at Simpson's home) took in $154,940 -- and according to *Star* magazine Simpson kept half of it or $77,470. In the financial records Simpson's take was listed as "rental of the facility and catering."

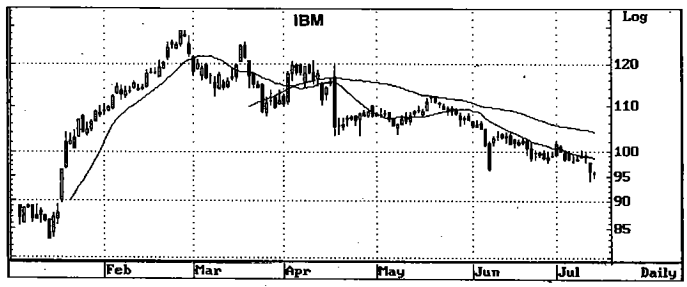
GOLD: I guess most of the gold story can be told in the action of the Gold-PTI (G-PTI). From its March 26 high of 753, the G-PTI dropped steadily to a June 28 low of 502. Ah, but could it be there's a golden side to gold, and it runs as follows: if a bear market hits Wall Street it looks as though you're going to be a lot safer in gold items than in other common stocks. There, that must be some kind of consolation. And then -- there's always the chance that 502 on the G-PTI represents THE bottom for the universe of gold.

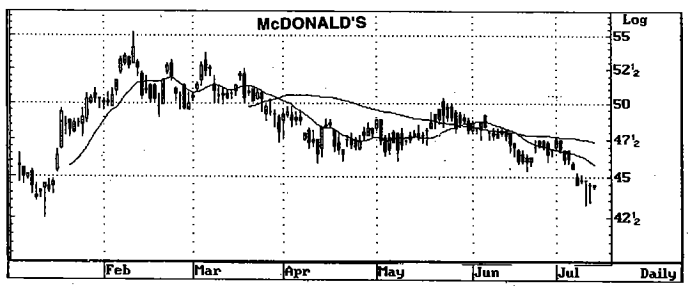


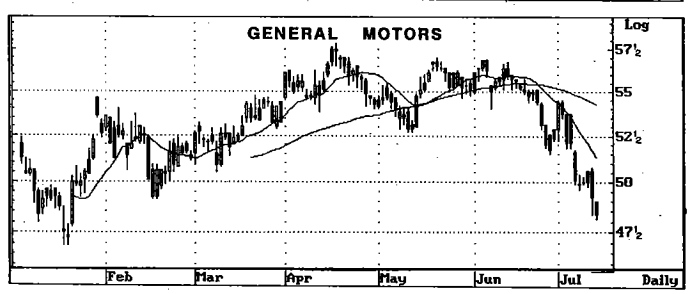
LATE NOTES: The "big name" Wall Street analysts are all calling this "a correction," but c'mon -- they don't know any more than you do. It could be a mild correction or it could be the beginning of the nastiest bear market since '73-'74. Can't tell yet, but we do know a few things such as -- this market is vastly overvalued and vastly overextended. My **PTI** has not yet rendered a bear signal, and as we now have no Dow Theory bear market signal, **Lowry's** Buy/Sell lines came together and touched on July 11, and if the market is down hard on Monday, July 15, Lowry's will almost surely render a bear signal. Severe damage has been sustained by the **advance-decline ratio** on the NYSE, and frankly, that is the most ominous portent in this decline so far. Finally, what's this -- stocks and bonds have been parting company? Which brings up this thought: if market deterioration continues but bonds hold or head higher, wouldn't that suggest the unthinkable, the one event that NOBODY expects -- a recession before election time?

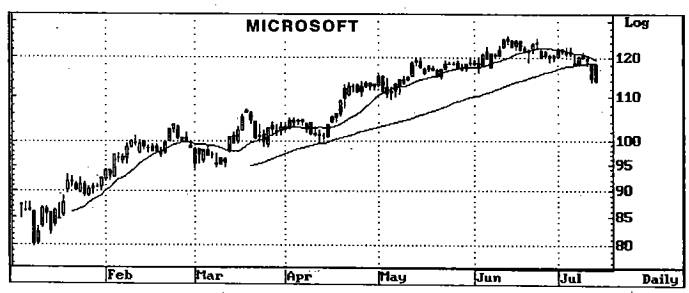
IMPORTANT: The D-J Transportation Average has already broken below its important April 12 closing low of 2111.17. The **KEY** level to watch now is the comparable D-J Industrial closing low of **5420.95,** recorded on May 7. If 5420 is violated on increasing volume, this would indicate that a bear market is in progress. (The confirming downside level on the S&P 500 is the April 11 closing low of **631.18.**) **Note:** My old friend Bob Prechter of Elliott Wave fame places the "ideal date" for the end of the greatest bull market in history (i.e., this one) at July 8, 1996. Let's see if he's right.

I am including here charts of some key stocks: **(1)** The brokerage stocks are extremely sensitive to coming events on Wall Street, which makes Merrill Lynch an excellent market bellwether. The important downside level for MER is 55. **(2)** IBM has come out with bundles of good news, but the stock evidently isn't interested, it's dancing to another tune. **(3)** Disney has merged with ABC, but here again the market is anything but thrilled. Could Mickey Mouse be choking on too much American cheese? **(4)** McDonald's is selling billions of burgers everywhere from Shanghai to Prague. But so far, the market is yawning. **(5)** Mighty GM is having a really, really good car year; nevertheless, the stock is flirting with its January low. What gives here? **(6)** Microsoft hit a high of 125 7/8; now it has dropped below both moving averages. Meanwhile,









the race between Gates and Buffett goes on -- which of the two is the richest American (and to be honest, do we really care)?

Investsor's Business Daily's chart of 20 leading growth equity mutual funds now shows appreciation for the year of just above 4% (the high was over 15%). If this percentage drops to the minus side, that's when I think we could start to see the big redemption (and all hell could break lose).

NEXT MAILING: July 31, 1996